

Message Text

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70

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 PM-07 H-03 INR-11 L-03 NSC-07 PA-04

RSC-01 PRS-01 SP-03 SS-20 NIC-01 COA-02 DLOS-07

AID-20 EB-11 CIEP-03 TRSE-00 STR-08 OMB-01 CEA-02

COME-00 FRB-03 XMB-07 OPIC-12 LAB-06 SIL-01 IO-14

PC-10 FEA-02 AGR-20 DRC-01 /212 W

----- 009166

O R 081819Z AUG 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC IMMEDIATE 4196

INFO AMEMBASSY CARACAS

USCINCSO

AMCONSUL CALI

AMCONSUL MEDELLIN

UNCLAS SECTION 2 OF 2 BOGOTA 7049

(#) SATISFACTORY

SETTLEMENT OF THE GULF OF VENEZUELA BOUNDARY COULD BE ACHIEVED. HE POINTED OUT THAT THROUGHOUT THE YEARS OF NEGOTIATIONS ON THIS ISSUE, COLOMBIA ADY VENEZUELA HAD MAINTAINED EXCELLENT RELATIONS WITH ONE ANOTHER.

8. LATIN AMERICAN INTEGRATION. LOPEZ CHARACTERIZED THE ANDEAN PACT (FORMED WHEN HE WAS FOREIGN MINISTER) AS THE MOST TRANS-CENDENTAL STEP YET ON PATH TO RECOVER BOLIVAR'S LAST DREAM OF SPANISH AMERICAN UNITY, AND PROMISED THAT HIS GOVERNMENT WOULD PURSUE ANDEAN AS WELL AS LAFTA INTEGRATION. HE MENTIONED IN PASSING THAT RECENTLY INDEPENDENT COUNTRIES IN THE CARIBBEAN "MARE NOSTRUM" OF THE AMERICAS, OFFER POTENTIAL EXPORT MARKETS FOR COLOMBIA.

9. CUBA. ALTHOUGH, DURING THE DAYS PRECEDING THE INAUGURAL, THERE HAD BEEN CONSIDERABLE SPECULATION ON THE NEW PRESIDENT'S

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APPROACH TO THE CUBAN QUESTION, LOPEZ DID NOT MAKE ANY MENTION OF CUBA DURING HIS SPEECH.

10. INFLATION AND INCOME DISTRIBUTION. NEW PRESIDENT DEVOTED MUCH OF HIS INAUGURAL ADDRESS TO INFLATION-RELATED MATTERS, BUT AVOIDED DESCRIBING DETAILS OF PROGRAMS HE PROPOSED. HE COMPARED INFLATION TO ALCOHOLIC OVERINDULGENCE, WHICH BEGINS WITH EUPHORIC STATEMENT (#) INCREASED EMPLOYMENT, BUT DEGENERATES INTO SELF-DESTRUCTIVE HIGHER COSTS AND DECREASED EMPLOYMENT. NEVER HAD THERE BEEN, HE SAID, SUCH INCOME DISPARITIES IN COLOMBIA AS DURING RECENT GALLOPING INFLATION. HE ASSIGNED AS CAUSES BUDGET DEFICITS, MONEY SUPPLY INCREASES CAUSED BY GROWING MINOR EXPORTS, EURODOLLAR FINANCING OF ENTERPRISES UNCONNECTED WITH DEVELOPMENT, AND HIGH IMPORT AND PRODUCTION COSTS OF SOME PRODUCTS.

11. HIS WORLDVIEW IS THAT, RATHER THAN BEING AT AN INTERNATIONAL ECONOMIC TAKEOFF STAGE, WE ARE AT THE PEAK OF A FAVORABLE ECONOMIC CYCLE. FOR COLOMBIA, BUDGET DEFICIT OF THREE BILLION PESOS (US \$120 MILLION) PLUS FOREIGN DEBT NOW COMING DUE AND ON WHICH FLEXIBLE INTEREST RATES IN SOME CASES WILL REACH 12 PERCENT, CALL INTO QUESTION WHETHER CURRENTLY HIGH FOREIGN RESERVES ARE OF MUCH SOLACE IN TIMES CALLING FOR AUSTERITY AND DISCIPLINE IN FACE OF MATERIAL SHORTAGES.

12. LOPEZ' NEW ECONOMIC TEAM HAS READY COMPLETE STABILITY PLAN TO PREPARE COUNTRY FOR NEW TIMES. TRADE WITH SOCIALIST COUNTRIES, WHICH ACCOUNT FOR 40 PERCENT OF WORLD TRADE (SIC) AND WHICH PRODUCE AN ABUNDANCE OF PETROCHEMICALS (LOPEZ SPENT SEVERAL WEEKS IN ROMANIA AFTER HIS ELECTION), WILL BE RESTRUCTURED SO THAT IT IS NOT DEPENDENT ON COFFEE INTERESTS WHICH FREQUENTLY UNDERPRICE SALES IN THIS MARKET. STABILIZATION PLAN ALSO INCLUDES RESTRUCTURING OF FINANCIAL MARKET CHARACTERIZED BY PLETHORA OF INTEREST RATES, AND RECUPERATION OF A NATIONAL MINERAL VOCATION IN SUCH AS COAL, NICKEL, PHOSPHATES AND GOLD THAT SHOULD CONTRIBUTE MORE SIGNIFICANTLY TO BALANCE OF PAYMENTS. WITH ENERGY RESOURCES OF COAL, OIL, GAS AND WATER POWER, COLOMBIA SHOULD BE SELF-SUFFICIENT IN THIS REGARD. SPECTACULAR DECREASES IN INTERNATIONAL COFFEE AND COTTON PRICES (SIC) CONFIRM THESIS THAT WAVE OF PROSPERITY HAS CRESTED, AND SIGNIFY MUCH LESS PROMISING FUTURE THAN SEEMED LIKELY A FEW MONTHS AGO.

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13. CONCERNING INCOME DISTRIBUTION, LOPEZ SAID HE WOULD BE INSINCERE IF HE DID NOT ANNOUNCE HIS INTENTION TO MAKE FUNDAMENTAL CHANGES TO SATISFY LONG REPRESSED LONGINGS. HE WILL READJUST SOME PRICES THAT ARE DISCOURAGING PRODUCTION, FREEZE SOME, AND PERHAPS REDUCE SOME TO FORMER LEVELS. TAXES ON LABOR AND

CAPITAL WILL BE REDISTRIBUTED MORE EQUITABLY. TAX EVASION WILL BE ATTACKED, IN LIGHT OF COLOMBIAN TAX RATES EQUIVALENT TO THOSE IN ADVANCED COUNTRIES BUT VERY LOW COLLECTIONS REPRESENTING ONLY 8-1/2 PERCENT OF GDP. PRESUMPTIVE TAXES WILL BE APPLIED NOT ONLY TO AGRICULTURE BUT ALSO TO OTHER SECTORS THAT CONTRIBUTE LESS THAN THEIR SHARE. FINALLY, RIGOROUS CONTROLS WILL BE APPLIED TO PRIVATE SAVINGS SYSTEMS IN ORDER TO PUT AN END TO THE CONCENTRATION OF ECONOMIC POWER IN MUTUAL FUNDS AND CAPITALIZATION OF FIRMS.

14. TEXT OF SPEECH BEING POUCHED TO ARA/LA.
VAKY

NOTE BY OC/T: BOGOTA 7049-- (#) OMISSION; CORRECTION TO FOLLOW.

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